



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LESLIE COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2000

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LESLIE COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2000

The Auditor of Public Accounts has completed the Leslie County Fiscal Court audit for fiscal year ended June 30, 2000. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances decreased by \$3,130,166 from the prior fiscal year. The bank cash balance was \$1,341,906 as of June 30, 2000. However, this balance does not reflect unpaid invoices totaling \$547,099. Revenues decreased by \$4,355,101 from the prior year and disbursements increased by \$2,750,137. The decrease in revenue is attributed primarily to a nonrecurring Local Government Economic Development grant of \$4,003,567 received during the prior fiscal year that was not expended until the current fiscal year. The increase in disbursements is attributed primarily to current year expenditures related to the prior year nonrecurring Local Government Economic Development grant.

Debt Obligations:

Total bonded debt principal as of June 30, 2000, was \$1,195,000. Future collections of \$1,429,871 are needed over the next 8 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$585,921 as of June 30, 2000. Future principal and interest payments of \$697,851 are needed to meet these obligations.

Report Comments:

- The Fiscal Court Should Not Obligate Funds In Excess Of Revenue Sources
- County Funds Should Not Have A Deficit Fund Balance
- The County Should Prepare An Accurate Outstanding Encumbrance Report
- County Employees Should Not Be Treated As Independent Contractors
- The County Should Require Contractors To Provide Adequate Documentation For Bridge Expenditures
- The County Should Have A Written Agreement To Protect Deposits
- The Fiscal Court Should Monitor Ambulance Franchise Fee Collections

Deposits:

- The County Should Have A Written Agreement To Protect Deposits

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Onzie Sizemore, Leslie County Judge/Executive
Members of the Leslie County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Leslie County, Kentucky, as of June 30, 2000, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Leslie County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Leslie County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2000, of Leslie County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Onzie Sizemore, Leslie County Judge/Executive
Members of the Leslie County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated April 15, 2002, on our consideration of Leslie County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Leslie County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Fiscal Court Should Not Obligate Funds In Excess Of Revenue Sources
- County Funds Should Not Have A Deficit Fund Balance
- The County Should Prepare An Accurate Outstanding Encumbrance Report
- County Employees Should Not Be Treated As Independent Contractors
- The County Should Require Contractors To Provide Adequate Documentation For Bridge Expenditures
- The County Should Have A Written Agreement To Protect Deposits
- The Fiscal Court Should Monitor Ambulance Franchise Fee Collections

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 15, 2002

LESLIE COUNTY OFFICIALS

Fiscal Year Ended June 30, 2000

Fiscal Court Members:

Onzie Sizemore	County Judge/Executive
John H. Davidson	Commissioner
Billy Ray Coots	Commissioner
Kenny F. Smith	Commissioner

Other Elected Officials:

Kenneth Witt	County Attorney
Eugene Roberts	Jailer
James Lewis	County Clerk
Carmoletta Morgan Pace	Circuit Court Clerk
Fred Davidson	Sheriff
Jean Ann Wooton	Property Valuation Administrator
Greg Walker	Coroner

Appointed Personnel:

Helen Madden	County Treasurer
Mack Muncy	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

LESLIE COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2000

Assets and Other Resources

Assets

General Fund Type

General Fund:			
Cash	\$	143,774	
Road and Bridge Fund:			
Cash		97,046	
Jail Fund:			
Cash		5,379	
Local Government Economic Assistance Fund:			
Cash		154,688	
Summer Recreation Fund:			
Cash		7,765	
Payroll Revolving Account - Cash		<u>200</u>	\$ 408,852

Special Revenue Fund Type

Senior Citizens Fund:			
Cash	\$	1,339	
Summer Youth Employment Training Program Fund:			
Cash		7,817	
E-911 Fund:			
Cash		24,014	
Community Development Block Grant - Waterline Fund:			
Cash		8	
Local Government Economic Development Fund			
Cash		826,538	
Juvenile Justice Fund			
Cash		<u>526</u>	860,242

Debt Service Fund Type

Leslie County Public Properties Corporation Fund:			
1988 Series B Bond Account	\$	36,412	
1994 Bond Issue Account		<u>36,600</u>	73,012

The accompanying notes are an integral part of the financial statements.

LESLIE COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2000
 (Continued)

Assets and Other Resources (Continued)

Other Resources

General Fund Type

Road Fund:

Amounts to be Provided in Future Years for		
Road Paving Capital Lease Principal Obligations (Note 6A)	\$	127,000
Amounts to be Provided in Future Years for		
Road Paving Capital Lease Principal Obligations (Note 6B)		384,400
Local Government Economic Assistance Fund:		
Amounts to be Provided in Future Years for		
Land Capital Lease Principal Obligations (Note 6C)	<u>74,521</u>	\$ 585,921

Debt Service Fund Type

Public Properties Corporation Fund:

Amount to be Provided in Future Years for		
1988 Series B Bond (Note 5A)	\$	168,588
1994 Bond Issue Payments (Note 5B)	<u>953,400</u>	<u>1,121,988</u>
Total Assets and Other Resources		<u>\$ 3,050,015</u>

Liabilities and Fund Balances

Liabilities

General Fund Type

General Fund:

Civil Action Settlement Obligation (Note 9):	\$	19,469	
Unpaid Obligations (Note 7)	<u>481,240</u>	\$	500,709
Road and Bridge Fund:			
Unpaid Obligations (Note 7)			11,426
Capital Lease Obligation (Note 6A)			127,000
Capital Lease Obligation (Note 6B)			384,400

The accompanying notes are an integral part of the financial statements.

LESLIE COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2000
 (Continued)

Liabilities (Continued)

General Fund Type (Continued)

Jail Fund:

Unpaid Obligations (Note 7)	\$	9,555	
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Local Government Economic Assistance Fund:

Unpaid Obligations (Note 7)		15,097	
Capital Lease Obligation (Note 6C)		74,521	\$ 1,122,708

Payroll Revolving Account			200
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Special Revenue Fund Type

Unpaid Obligations (Note 7):

Senior Citizens Fund		10,217	
E-911 Fund		95	10,312

Debt Service Fund Type

Public Properties Corporation Fund:

1988 Series B-Bond Not Matured (Note 5A)	\$	205,000	
1994 Bond Issue-Bonds Not Matured (Note 5B)		<u>990,000</u>	1,195,000

Fund Balances

Reserved:

Special Revenue Fund Type

Senior Citizens Fund	\$	(8,878)	
Summer Youth Employment Training Program Fund		7,817	
E-911 Fund		23,919	
Community Development Block Grant Waterline Fund		8	
Local Government Economic Development		826,538	
Juvenile Justice Fund		<u>526</u>	849,930

The accompanying notes are an integral part of the financial statements.

LESLIE COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2000
 (Continued)

Liabilities and Fund Balances (Continued)

Fund Balances (Continued)

Unreserved:

General Fund Type

General Fund	\$	(356,935)	
Road and Bridge Fund		85,620	
Jail Fund		(4,176)	
Local Government Economic Assistance Fund		139,591	
Summer Recreation Fund		<u>7,765</u>	\$ (128,135)
Total Liabilities and Fund Balances			<u>\$ 3,050,015</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

LESLIE COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2000

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 3,303,027	\$ 874,270	\$ 971,411	\$ 50,140
Other Financing Sources:				
Transfers In	557,642	150,000	50,000	130,000
Total Cash Receipts	<u>\$ 3,860,669</u>	<u>\$ 1,024,270</u>	<u>\$ 1,021,411</u>	<u>\$ 180,140</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 6,072,938	\$ 757,017	\$ 545,086	\$ 182,762
Other Financing Uses:				
Schedule of Unbudgeted Expenditures	1,285			
Transfers Out	557,642	209,050	348,592	
Lease Principal Payments	123,420		101,000	
Bonds:				
Principal Paid	150,000			
Interest Paid	85,550			
Total Cash Disbursements	<u>\$ 6,990,835</u>	<u>\$ 966,067</u>	<u>\$ 994,678</u>	<u>\$ 182,762</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (3,130,166)	\$ 58,203	\$ 26,733	\$ (2,622)
Cash Balance - July 1, 1999	4,472,072	85,571	70,313	8,001
Cash Balance - June 30, 2000	<u><u>\$ 1,341,906</u></u>	<u><u>\$ 143,774</u></u>	<u><u>\$ 97,046</u></u>	<u><u>\$ 5,379</u></u>

The accompanying notes are an integral part of the financial statements.

LESLIE COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
Fiscal Year Ended June 30, 2000
(Continued)

General Fund Type		Special Revenue Fund Type			
Local Government Economic Assistance Fund	Summer Recreation Fund	Senior Citizens Fund	Summer Youth Employment Training Program Fund	E-911 Fund	Community Development Block Grant - Waterline Fund
\$ 1,059,663	\$ 12,449	\$ 83,267	\$ 80,028	\$ 93,826	\$ 14,068
\$ 1,059,663	\$ 12,449	\$ 83,267	\$ 80,028	\$ 93,826	\$ 14,068
\$ 1,152,750	\$ 9,424	\$ 91,695	\$ 88,512	\$ 138,142	\$ 14,068
22,420					
\$ 1,175,170	\$ 9,424	\$ 91,695	\$ 88,512	\$ 138,142	\$ 14,068
\$ (115,507) 270,195	\$ 3,025 4,740	\$ (8,428) 9,767	\$ (8,484) 16,301	\$ (44,316) 68,330	\$ 8
\$ 154,688	\$ 7,765	\$ 1,339	\$ 7,817	\$ 24,014	\$ 8

The accompanying notes are an integral part of the financial statements.

LESLIE COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 Fiscal Year Ended June 30, 2000
 (Continued)

	<u>Special Revenue Fund Type</u>		<u>Debt Service Fund Type</u>		
	Local Government Economic Development Fund	Juvenile Justice Fund	Road Paving Lease Fund	Leslie County Public Properties Corporation Fund	
				1988 Series B Bond Account	1994 Bond Issue Account
<u>Cash Receipts</u>					
Schedule of Operating Revenue	\$ 59,377	\$	\$ 3	\$ 2,785	\$ 1,740
Other Financing Sources:					
Transfers In				29,050	198,592
Total Cash Receipts	<u>\$ 59,377</u>	<u>\$</u>	<u>\$ 3</u>	<u>\$ 31,835</u>	<u>\$ 200,332</u>
<u>Cash Disbursements</u>					
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 3,093,482	\$	\$	\$	\$
Other Financing Uses:					
Schedule of Unbudgeted Expenditures			1,285		
Transfers Out					
Lease Principal Payments					
Bonds:					
Principal Paid				15,000	135,000
Interest Paid				16,820	68,730
Total Cash Disbursements	<u>\$ 3,093,482</u>	<u>\$ 0</u>	<u>\$ 1,285</u>	<u>\$ 31,820</u>	<u>\$ 203,730</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	<u>\$(3,034,105)</u>	<u>\$</u>	<u>\$ (1,282)</u>	<u>\$ 15</u>	<u>\$ (3,398)</u>
Cash Balance - July 1, 1999	<u>3,860,643</u>	<u>526</u>	<u>1,282</u>	<u>36,397</u>	<u>39,998</u>
Cash Balance - June 30, 2000	<u><u>\$ 826,538</u></u>	<u><u>\$ 526</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 36,412</u></u>	<u><u>\$ 36,600</u></u>

The accompanying notes are an integral part of the financial statements.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2000

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Leslie County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, management has included the Public Properties Corporation Fund as part of the reporting entity.

The Public Properties Corporation (the Corporation) is a legally separate entity established to provide long term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore management must include the Corporation as a component unit, and the Corporation's financial activity has been blended with that of the Fiscal Court.

Additional Leslie County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Leslie County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Leslie County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Leslie County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, and the Summer Recreation Fund.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Leslie County Special Revenue Fund Type includes the following county funds: Senior Citizens Fund, Summer Youth Employment Training Program Fund, E-911 Fund, Community Development Block Grant – Waterline Fund, Local Government Economic Development Fund, and Juvenile Justice Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest. The Leslie County Debt Service Fund Type includes the following county funds: Road Paving Lease Fund and Leslie County Public Properties Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Leslie County budget is adopted on a cash basis of accounting and laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget (Continued)

Formal budgets are not adopted for the Leslie County Public Properties Corporation Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. Furthermore, the Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Leslie County Fiscal Court: Hyden-Leslie County Water and Sewer District, Extension District, Library District, and Health District.

G. Jointly Governed Organizations

A jointly governed organization is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants. Based on these criteria, the following are considered jointly governed organizations of Leslie County Fiscal Court: Clay-Leslie Industrial Development Authority and Hyden-Leslie Industrial Development Authority.

The Leslie County Fiscal Court, in conjunction with the Clay County Fiscal Court, created the Clay-Leslie Industrial Development Authority (the Authority). The Authority was developed for the purpose of developing an industrial park. Each county appoints three members of the six-member board. Leslie County did not appropriate any funds for the industrial development park during fiscal year ended June 30, 2000.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Jointly Governed Organizations (Continued)

The Leslie County Fiscal Court, in conjunction with the City of Hyden, created the Hyden-Leslie Industrial Development Authority (the Authority). The Authority was developed to promote economic development in the area. Leslie County appoints three members of a five-member board. Leslie County did not appropriate any funds for the Authority during fiscal year ended June 30, 2000.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement that identifies the excess deposit insurance bond provided as collateral.

Note 4. Short-Term Debt

The county entered into a lease agreement with Xerox Corporation for the purchase of a copier on May 27, 1997. Terms of the agreement stipulate a four-year payment schedule. As of June 30, 2000, the amount outstanding was \$5,132.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000
(Continued)

Note 5. Long-Term Debt

The county is liable for the following bonds outstanding issued by the Leslie County Public Properties Corporation. Interest is due semiannually on August 1 and February 1 for the 1988 Series B Bond. In addition, interest is due semiannually on September 1 and March 1 for the 1994 Bond Issue. The proceeds from these bonds are to be used for road improvement and the courthouse annex. The total principal outstanding is \$205,000 for the 1988 Series B Bond. The total principal outstanding is \$990,000 for the 1994 Bond Issue.

A. Leslie County Public Properties Corporation – 1988 Series B Bond Fund:

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
June 30, 2001	\$ 15,725	\$ 20,000
June 30, 2002	14,245	20,000
June 30, 2003	12,745	20,000
June 30, 2004	11,226	25,000
June 30, 2005	9,300	25,000
Amounts Thereafter	<u>15,112</u>	<u>95,000</u>
Totals	<u>\$ 78,353</u>	<u>\$ 205,000</u>

B. Leslie County Public Properties Corporation - 1994 Bond Issue:

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
June 30, 2001	\$ 61,305	\$ 140,000
June 30, 2002	53,255	150,000
June 30, 2003	44,255	160,000
June 30, 2004	34,495	170,000
June 30, 2005	23,870	180,000
Amounts Thereafter	<u>12,350</u>	<u>190,000</u>
Totals	<u>\$ 229,530</u>	<u>\$ 990,000</u>

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000
(Continued)

Note 6. Lease-Purchase Agreements

- A. The county entered into a lease agreement with the Kentucky Association of Counties Leasing Trust for the purpose of road paving. Terms of the lease agreement stipulate a ten-year repayment schedule with variable monthly interest payments. As of June 30, 2000, the outstanding principal balance was \$127,000. The remaining lease payments are as follows:

Due Date	Interest and Fees	Principal Amount
June 30, 2001	\$ 6,420	\$ 62,000
June 30, 2002	2,406	65,000
Totals	<u>\$ 8,826</u>	<u>\$ 127,000</u>

- B. The county entered into a lease agreement with the Kentucky Area Development District for the purpose of road paving. Terms of the lease agreement stipulate a ten-year repayment schedule with variable semiannual interest payments. As of June 30, 2000, the outstanding principal balance was \$384,400. The remaining lease payments are as follows:

Due Date	Interest and Fees	Principal Amount
June 30, 2001	\$ 23,300	\$ 44,700
June 30, 2002	20,467	47,500
June 30, 2003	17,456	50,500
June 30, 2004	14,257	53,700
June 30, 2005	10,798	54,100
Amounts Thereafter	10,855	130,900
Totals	<u>\$ 97,133</u>	<u>\$ 384,400</u>

- C. The county entered into a lease agreement with Hyden Citizens Bank for the acquisition of land. Terms of the lease agreement stipulate a five-year monthly repayment schedule. As of June 30, 2000, the principal balance remaining was \$74,521. The remaining lease payments are as follows:

Due Date	Interest and Fees	Principal Amount
June 30, 2001	\$ 3,236	\$ 23,595
June 30, 2002	2,011	24,819
June 30, 2003	724	26,107
Totals	<u>\$ 5,971</u>	<u>\$ 74,521</u>

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000
(Continued)

Note 7. Unpaid Obligations

Unpaid obligations represent commitments made as of June 30, 2000, that have not been paid. The following table summarizes unpaid obligations for each fund.

Fund	Unpaid Obligation
General	\$ 500,709
Road	11,426
Jail	9,555
LGEA	15,097
Senior Citizens	10,217
E-911	95
Total	<u>\$ 547,099</u>

Note 8. Insurance

- A. For the fiscal year ended June 30, 2000, Leslie County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.
- B. The Leslie County Judge/Executive is a member of the Kentucky Association of Counties Workers' Compensation Board of Directors. Leslie County owes \$61,299 in unpaid Workers' Compensation Insurance premiums.
- C. The county owes KALF \$453,860 in delinquent insurance premium payments. This amount is included in the total unpaid obligations disclosed in Note 7. The following is a summary of unpaid insurance premiums as of June 30, 2000:

Insurance Category	Delinquent Premium Amount
Property and Liability Insurance	\$ 290,042
Unemployment Insurance	102,519
Workers' Compensation Insurance	<u>61,299</u>
Total Unpaid Premium Amount	<u>\$ 453,860</u>

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000
(Continued)

Note 9. Civil Action Settlement Obligation

On September 30, 1997, the county entered into a civil action settlement agreement with the estate of Dwayne Walker totaling \$49,469. Terms of the settlement specify four yearly payments of \$10,000 due each October 31 and a final payment of \$9,469 due October 31, 2001. The balance outstanding as of June 30, 2000, was \$19,469.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

LESLIE COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2000

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 900,930	\$ 874,270	\$ (26,660)
Road and Bridge Fund	975,934	971,410	(4,524)
Jail Fund	42,708	50,141	7,433
Local Government Economic Assistance Fund	938,000	1,059,663	121,663
Summer Recreation Fund	20,000	12,449	(7,551)
<u>Special Revenue Fund Type</u>			
Senior Citizens Fund	83,000	83,267	267
Summer Youth Employment Training Program Fund	89,471	80,028	(9,443)
E-911 Fund	94,500	93,826	(674)
Community Development Block Grant - Waterline Fund	748,000	14,068	(733,932)
Local Government Economic Development Fund	4,000,000	59,377	(3,940,623)
Confluence EDA	1,000,000		(1,000,000)
I.S.T.E.A	250,000		(250,000)
Greasy Creek AML Waterline Fund	21,882		(21,882)
<u>Debt Service Fund Type</u>			
1988 Series B Bond Fund		2,788	2,788
1994 Bond Issue Fund		1,740	1,740
Totals	<u>\$ 9,164,425</u>	<u>\$ 3,303,027</u>	<u>\$ (5,861,398)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 9,164,425
Add: Budgeted Prior Year Surplus			538,060
Less: Other Financing Uses			(351,061)
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 9,351,424</u>

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SCHEDULE OF OPERATING REVENUE

LESLIE COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2000

Revenue Categories	GOVERNMENTAL FUND TYPES			
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type
Taxes	\$ 675,392	\$ 584,048	\$ 91,344	\$
In Lieu Tax Payments	40,982	40,982		
Excess Fees	6,392	6,392		
Licenses and Permits	214,032	214,032		
Intergovernmental Revenues	2,229,450	2,052,086	177,364	
Charges for Services	28,252	26,752	1,500	
Miscellaneous Revenues	30,292	30,292		
Interest Earned	78,235	13,349	60,358	4,528
Total Operating Revenue	<u>\$ 3,303,027</u>	<u>\$ 2,967,933</u>	<u>\$ 330,566</u>	<u>\$ 4,528</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

LESLIE COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2000

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 657,930	\$ 616,572	\$ 41,358
Protection to Persons and Property	314,391	309,363	5,028
General Health and Sanitation	192,725	176,588	16,137
Social Services	96,900	83,156	13,744
Recreation and Culture	237,000	198,781	38,219
Roads	1,003,104	707,500	295,604
Debt Service	42,428	42,277	151
Administration	450,226	512,802	(62,576)
Total Operating Budget - General Fund Type	\$ 2,994,704	\$ 2,647,039	\$ 347,665
Other Financing Uses:			
Kentucky Area Development District			
Road Paving Lease - Principal	42,000	42,000	
Kentucky Association of Counties			
Road Paving Lease - Principal	59,000	59,000	
Capital Lease Agreement-			
Principal on Lease	22,420	22,420	
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 3,118,124</u>	<u>\$ 2,770,459</u>	<u>\$ 347,665</u>
Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 4,000,000	\$ 3,093,482	\$ 906,518
Protection to Persons and Property	140,000	134,158	5,842
General Health and Sanitation	1,019,982	14,068	1,005,914
Social Services	182,238	180,207	2,031
Capital Projects	1,000,000		1,000,000
Administration	14,500	3,984	10,516
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 6,356,720</u>	<u>\$ 3,425,899</u>	<u>\$ 2,930,821</u>

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SCHEDULE OF UNBUDGETED EXPENDITURES

LESLIE COUNTY
SCHEDULE OF UNBUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2000

<u>Expenditure Items</u>	<u>Road Paving Lease Fund</u>
Miscellaneous	<u>\$ 1,285</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Onzie Sizemore, Leslie County Judge/Executive
Members of the Leslie County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Leslie County, Kentucky, as of and for the year ended June 30, 2000, and have issued our report thereon dated April 15, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Leslie County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Fiscal Court Should Not Obligate County Funds In Excess Of Revenue Sources
- County Funds Should Not Have A Deficit Fund Balance
- The County Should Prepare An Accurate Outstanding Encumbrance Report
- County Employees Should Not Be Treated As Independent Contractors
- The County Should Require Contractors To Provide Adequate Documentation For Bridge Expenditures
- The County Should Have A Written Agreement To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Leslie County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Leslie County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying comments and recommendations.

- The Fiscal Court Should Monitor Ambulance Franchise Fee Collections

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 15, 2002

COMMENTS AND RECOMMENDATIONS

LESLIE COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2000

NONCOMPLIANCES

1. The Fiscal Court Should Not Obligate Funds In Excess Of Revenue Sources

As of June 30, 2000, invoices totaling \$547,099 were not paid because the county did not have sufficient revenues to cover expenditures. KRS 65.140 states that all bills for goods or services shall be paid within thirty working days of the vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper invoicing by the vendor or by the vendor's subcontractor. Therefore, we have adjusted the treasurer's financial statement to reflect unpaid obligations as of June 30, 2000. The following table summarizes the adjustments for unpaid obligations.

	General Fund	Road Fund	Jail Fund
County's Unadjusted Cash Balance as of June 30, 2000	\$ 143,774	\$ 97,046	\$ 5,379
Unpaid Obligations as of June 30, 2000	<u>(500,709)</u>	<u>(11,426)</u>	<u>(9,555)</u>
Adjusted June 30, 2000 Ending Cash Balance	<u>\$ (356,935)</u>	<u>\$ 85,620</u>	<u>\$ (4,176)</u>

	LGEA Fund	Senior Citizens Fund	E-911 Fund
County's Unadjusted Cash Balance as of June 30, 2000	\$ 154,688	\$ 1,339	\$ 24,014
Unpaid Obligations as of June 30, 2000	<u>(15,097)</u>	<u>(10,217)</u>	<u>(95)</u>
Adjusted June 30, 2000 Ending Cash Balance	<u>\$ 139,591</u>	<u>\$ (8,878)</u>	<u>\$ 23,919</u>

We recommend that the practice of obligating county funds when adequate cash is not available to cover the expenditure be stopped. Furthermore, we recommend that all members of the fiscal court review the quarterly outstanding encumbrance report to ensure compliance with KRS 65.140 that requires invoices to be paid within thirty working days.

County Judge/Executive Onzie Sizemore's Response:

Expenditures will be reduced for all non-essential items. Accounts payable will be placed under tighter review and control.

LESLIE COUNTY
 COMMENTS AND RECOMMENDATIONS
 Fiscal Year Ended June 30, 2000
 (Continued)

2. County Funds Should Not Have A Deficit Fund Balance

As of June 30, 2000, the following funds had deficit fund balances.

Fund	Deficit Fund Balance
General	\$ (356,935)
Jail	\$ (4,176)
Senior Citizens Fund	\$ (8,878)

The deficit fund balances are the result of numerous unpaid obligations at fiscal year end. KRS 68.110 states that the fiscal court shall not in any year expend money in excess of the amount annually levied and collected for that year. Therefore, we recommend that the fiscal court monitor the financial transactions of the county to ensure compliance with this statute.

County Judge/Executive Onzie Sizemore's Response:

Spending will be reduced as necessary. Positive cash flow will improve as revenue collections regain proper schedule.

3. The County Should Prepare An Accurate Outstanding Encumbrance Report

The county did not include all unpaid invoices on the outstanding encumbrance report. Because of this, the encumbrance report was understated by \$232,065. The following table summarizes the invoices not included on the encumbrance report:

Vendor	Amount
KACO Unemployment Insurance	\$ 64,047
KACO Worker's Compensation	22,178
KACO Property & Casualty	145,840
Total Unpaid Liabilities Not Included On Encumbrance Report	<u>\$ 232,065</u>

The State Local Finance Officer, under the authority of KRS 68.210, requires the quarterly outstanding encumbrance report to be cumulative and to reflect all outstanding invoice amounts. We recommend that the county implement procedures to ensure their outstanding encumbrance reports are accurate.

County Judge/Executive Onzie Sizemore's Response:

Debt will be repaid by incorporation into KADD Lease/Purchase refinance plan.

Auditor's Note:

The Department For Local Government has contacted and is working with Leslie County to assure that amounts owing to KACO are paid. The current plan call for all unpaid KACO invoices to be retired by January 25, 2003, using coal and mineral severance tax receipts, county road aid funds, and General Fund real property tax receipts.

LESLIE COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2000
(Continued)

4. County Employees Should Not Be Treated As Independent Contractors

The County compensates and classifies certain individuals as contract labor instead of county employees. We believe that these individuals are county employees instead of contract labor. During fiscal year June 30, 2000, payments to these individuals totaled \$118,680. The following activities indicate that an employer/employee relationship exists:

- The county maintained time cards and personnel files for certain independent contractors
- County employees supervised certain independent contractors
- Certain independent contractors performed the same duties as other county employees
- Certain independent contractors were paid every two weeks throughout the fiscal year

We believe that these activities indicate an employee/employer relationship that could pose a potential liability to the county. Federal and state laws require payroll taxes be withheld from salaries when an employee/employer relationship exists. In addition, employer's matching share of taxes, employer's matching share of retirement, employer unemployment tax and worker compensation insurance must be paid. Failure to do so could result in interest and penalties being levied against the county by regulatory agencies.

We recommend that the practice of accounting for employees as independent contractors when an employee/employer relationship exists be stopped. Furthermore, we recommend that the county contact state and federal regulatory agencies for additional guidance of this issue.

County Judge/Executive Onzie Sizemore's Response:

Positions will be reclassified as necessary.

5. The County Should Require Contractors To Provide Adequate Documentation For Bridge Expenditures

We were unable to determine if payments for individual bridge projects exceeded the legal bid threshold because vendor invoices detailed projects by geographic location rather than individual bridge project. KRS 424.260 states that bids are needed for materials, supplies and equipment or for contractual services other than professional for expenditures that exceed \$10,000. We recommend that the county require vendors to submit detailed invoices for each individual bridge construction project to demonstrate compliance with KRS 424.260.

County Judge/Executive Onzie Sizemore's Response:

Contractors will comply as part of contract agreement.

LESLIE COUNTY
 COMMENTS AND RECOMMENDATIONS
 Fiscal Year Ended June 30, 2000
 (Continued)

6. The County Should Have A Written Agreement To Protect Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of August 31, 1999, the county had bank deposits of \$4,478,851; FDIC insurance of \$100,000; and collateral pledged or provided of \$1,000,000. Even though the county obtained an excess deposit insurance bond of \$5,000,000, there was no written agreement between the county and the depository institution, signed by both parties, securing the county's interest in the collateral. We recommend the county enter into a written agreement with the depository institution to secure the county's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Judge/Executive Onzie Sizemore's Response:

Updated contracts will be executed to provide adequate security for deposited funds.

REPORTABLE CONDITION

The Fiscal Court Should Monitor Ambulance Franchise Fee Collections

Ambulance franchise fees were not collected during the preceding, current or subsequent fiscal years. From the records made available to us, delinquent franchise fees totaled \$29,500 as of June 30, 2000. Also, we found no written procedures relating to the collection of delinquent fees and there is no indication in the fiscal court order book that the ambulance service companies had been exonerated from paying current or delinquent franchise fees. In the future, we recommend that the fiscal court monitor the collection of ambulance franchise fees for compliance with terms of the lease agreement. In addition, we recommend that the fiscal court establish written procedures for the collection of delinquent franchise fees.

County Judge/Executive Onzie Sizemore's Response:

Fiscal court will be asked to decide to take collection action or exonerate.

PRIOR YEAR FINDINGS

- County Funds Should Not Have A Deficit
- The Fiscal Court Should Not Obligate Funds In Excess of Revenue Sources
- The Fiscal Court Should Maintain Adequate Documentation for Bridge Expenditures
- The County Should Review Independent Contractors Relationships
- The Fiscal Court Should Monitor Ambulance Franchise Fee Collections

None of these findings had been corrected and were repeated in the current audit.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

LESLIE COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2000

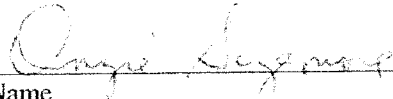
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

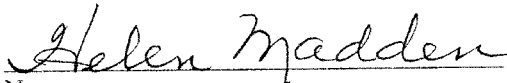
LESLIE COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2000

The Leslie County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer